

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7082

BILL NUMBER: HB 1418

NOTE PREPARED: Jan 7, 2013

BILL AMENDED:

SUBJECT: Income Tax Rate Reduction.

FIRST AUTHOR: Rep. Brown T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: The bill decreases the Individual Adjusted Gross Income (AGI) Tax rate from 3.4% to 3.23% in fiscal year 2014 and 3.06% in fiscal year 2015 and thereafter.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The Department of State Revenue will incur additional expenses to revise tax forms, instructions, computer programs, and withholding tables to reflect the changes made by the bill. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The bill will result in a revenue loss to the state General Fund. The revenue loss from the rate reduction is estimated to begin in FY 2014 and is outlined in the table below.

Fiscal Year	State General Fund Impact (In Millions)	Percent Reduction in Tax Revenues
2014	- \$233.9	-4.7%
2015	- \$488.5	-9.4%
2016	- \$507.1	-9.4%
2017	- \$526.5	-9.4%

The analysis assumes that individual income tax filers will change their quarterly estimated payments and income tax withholding payments based on the reduced tax rates. These adjustments will occur starting July 1, 2013, for tax year 2013, and July 1, 2014, for tax year 2014. The full impact of the rate phase down would occur in FY 2015 and thereafter.

Background: Under current law, Indiana imposes a flat income tax rate of 3.4% on adjusted gross income (AGI) of individual income taxpayers. The Individual AGI Tax rate reduction would be phased in as specified in the table below.

Fiscal Year	Current Rate	Proposed Rate	Percentage Point Change from Current Rate	Percent Change from Current Rate
2013	3.40%	3.40%	0.00%	0.00%
2014	3.40%	3.23%	-0.17%	-5.00%
2015 and thereafter	3.40%	3.06%	-0.34%	-10.00%

FY 2015 would be the first year of the full impact of the tax rate cut to 3.06%. The Revenue Technical Committee forecast (December 17, 2012) forecasted individual income tax revenue of \$5,011.6 M in FY 2014 and \$5,213.1 M in FY 2015. Income tax revenues for FY 2016 and FY 2017 were estimated using FY 2015 as the base year and applying the historical compound average annual growth rate. Results from empirical literature on taxable income elasticity along with the proposed decrement in tax rate were used to calculate the impact of the rate change on taxable income for each fiscal year. The fiscal impact will continue to result in an estimated revenue loss of 9.4% of the income tax collections at the current tax rate in years thereafter. 100% of the state individual income tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: State Revenue Forecast, December 17,2012. OFMA Income Tax Database. Long, James E. "The Impact of Marginal Tax Rates on Taxable Income: Evidence from State Income Tax Differentials." Southern Economic Journal 65(4): 855. Bruce, Donald, John Deskins, and William Fox. (2005) On the Extent, Growth, and Efficiency Consequences of State Business Tax Planning." Donald Bruce, John Deskins, and William Fox. (2006). "On The Relative Distortions of State Sales, Corporate Income and Personal Income Taxes."

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